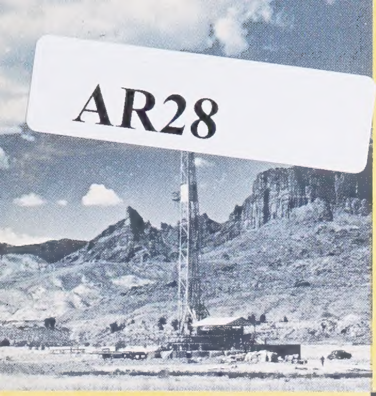
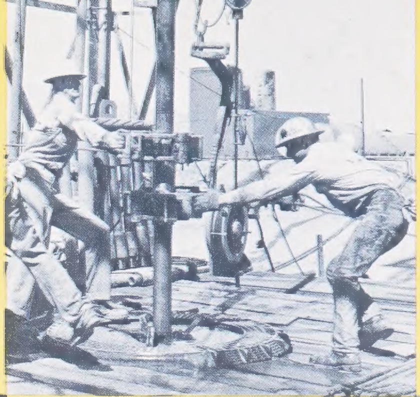
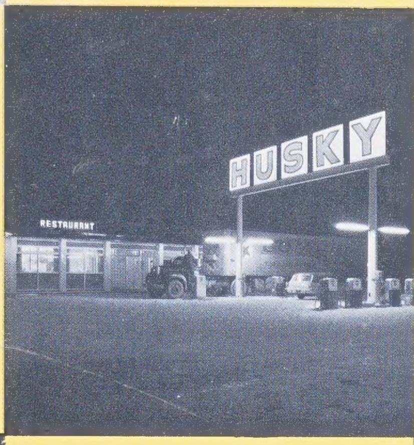
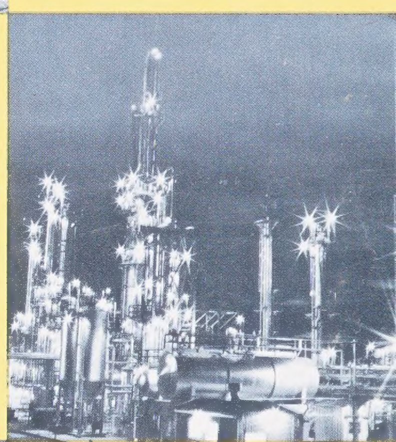
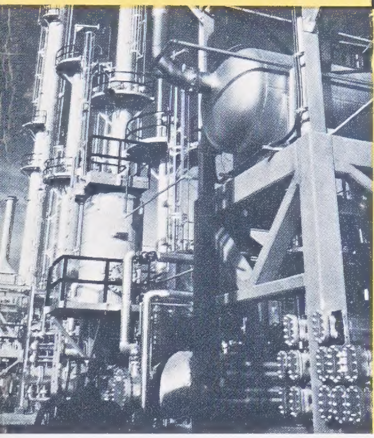




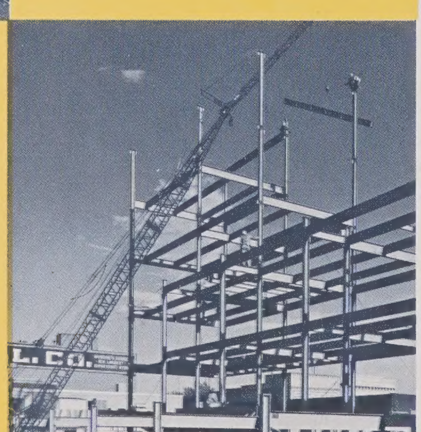






HUSKY

14th Annual Report 1960



The annual meeting of shareholders will be held April 25, 1961 at Calgary, Alberta, Canada. A formal notice of meeting, proxy statement and form of proxy are being sent to all holders of the Company's common and 6% preferred shares.

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Canadian Husky Oil Ltd. / 14th Annual Report 1960

General Office

815 Sixth Street S.W., Calgary, Alberta.

United States Office

Cody, Wyoming.

Division Offices

Edmonton, Alberta; Regina, Saskatchewan;
Winnipeg, Manitoba; Fort William, Ontario;
Great Falls, Montana; Spokane, Washington.

Refineries

Cody, Wyoming; Fort William, Ontario;
Lloydminster, Alberta; Moose Jaw, Saskatchewan.

Briquette Plant

Dickinson, North Dakota.

Steel Subsidiary

Gate City Steel, Inc.—Omaha, Omaha, Nebraska.

Drilling Subsidiary

Rimrock Tidelands, Inc., Shreveport, Louisiana.

The Husky Companies

The Husky companies were started in 1938 with the purchase of a small refinery and four oil wells at Cody, Wyoming by HUSKY OIL COMPANY. In 1946, Husky entered the Canadian oil industry with construction of a refinery at Lloydminster, Alberta and the following year established the predecessor of CANADIAN HUSKY OIL LTD. Both companies expanded their operations over succeeding years and in 1953, they were completely separated. By that time each had become a fully integrated independent oil company.

In 1960, the two were united to form a single operating unit with exploration, production, refining and marketing operations in both Canada and the United States. Canadian Husky now holds 99% of the common stock of Husky Oil Company.

Principal affiliates of Canadian Husky and Husky Oil are:

HUSKY OIL & REFINING LTD. (100% owned)
The predecessor of Canadian Husky, it is planned that this company will be liquidated in 1961.

BRISTOL BAY OIL COMPANY (100% owned)
A Delaware corporation which explores for oil and gas in Alaska.

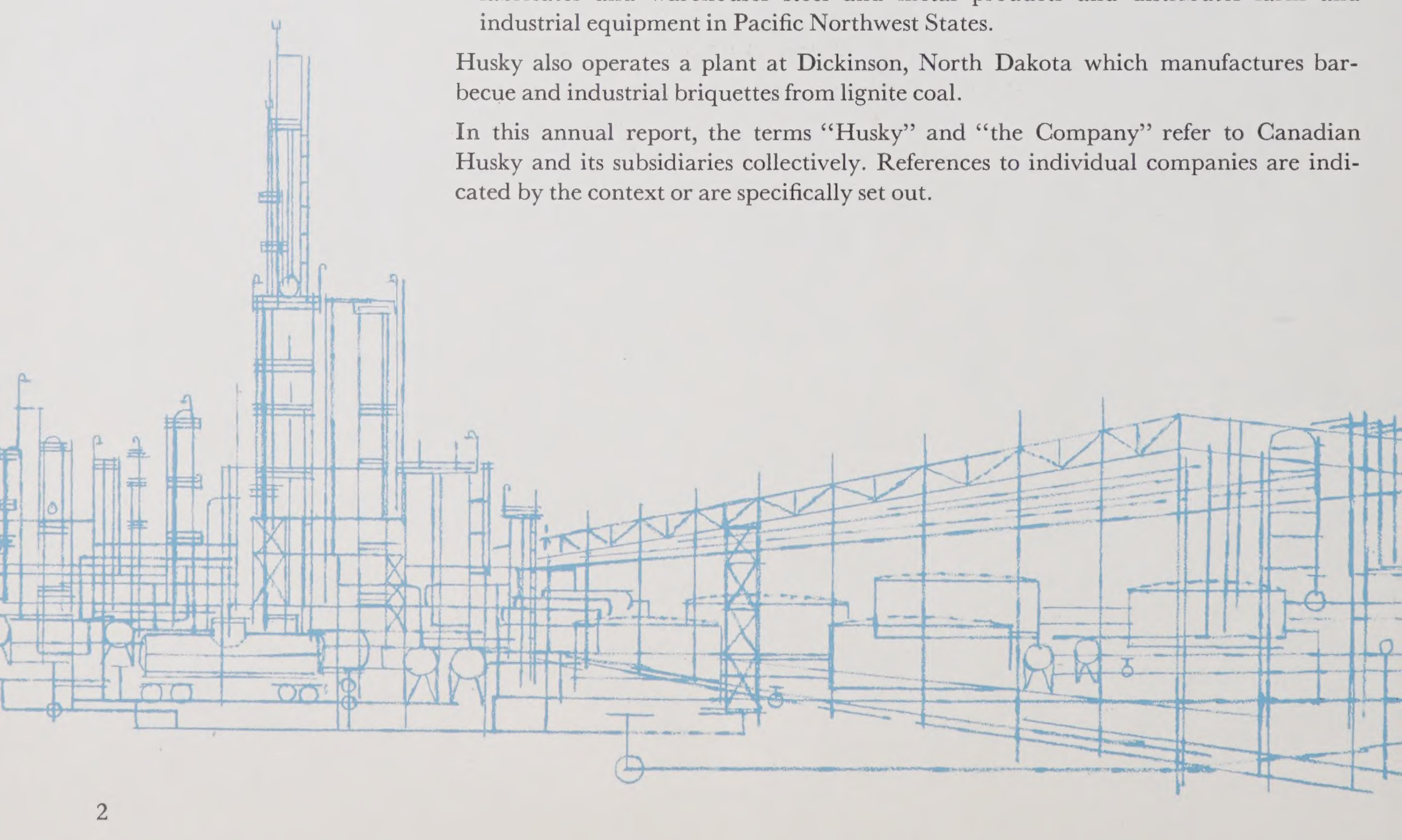
GATE CITY STEEL, INC.—OMAHA (90% owned)
fabricates and warehouses steel and metal products for sale throughout western United States.

RIMROCK TIDELANDS, INC. (61% owned)
engaged in contract drilling and producing oil in the Gulf Coast area and in exploring for oil in foreign areas, mainly Tunisia.

BANNOCK STEEL CORPORATION (50% owned not consolidated)
fabricates and warehouses steel and metal products and distributes farm and industrial equipment in Pacific Northwest States.

Husky also operates a plant at Dickinson, North Dakota which manufactures barbecue and industrial briquettes from lignite coal.

In this annual report, the terms "Husky" and "the Company" refer to Canadian Husky and its subsidiaries collectively. References to individual companies are indicated by the context or are specifically set out.



Highlights of the Year

Canadian Husky has acquired 99% of the common stock of Husky Oil Company and the two companies now form a single unit operating in Canada and the United States.

Modernization and expansion of the Cody, Wyoming refinery was completed, giving Husky more products with higher quality for its U.S. markets.

Sales of natural gas and condensate from Husky's properties has started and will increase substantially by the end of 1961.

Arrangements were completed for manufacturing barbecue briquettes and for marketing them throughout both countries.

Major new acquisitions of exploratory acreage in the United States and Canada have greatly improved Husky's exploration potential.

A Comparison 1960-1959

FINANCIAL	1960	1959
Gross operating income	$46,052,917	$48,432,137
Net operating profit before depreciation and depletion	6,782,399	7,255,226
Net working capital	8,924,200	16,307,537
Cash and marketable securities	4,653,811	8,479,731
GROWTH EXPENDITURES		
Exploration	2,289,621	2,154,748
Development	2,373,078	2,511,679
Refining and manufacturing	6,218,266	960,117
Drilling equipment	137,033	908,618
Marketing	1,087,876	509,812
OPERATIONS		
Crude oil produced (barrels)	3,165,917	3,153,310
Crude oil processed (barrels)	5,110,175	5,646,657
Natural gas produced (MCF)	4,173,670	4,644,741

President's Report to Shareholders

In many ways, 1960 was the most active and important period in the 22-year history of Husky companies. The year's accomplishments will be realized in years immediately ahead and will contribute to a new period of sound growth for the Company.

The most prominent accomplishment was the combining of Canadian Husky and Husky Oil Company into a single operating unit through a share exchange offer. By the end of the year Canadian Husky had acquired 99 per cent of the common stock of Husky Oil and had thus become the only independent oil company with fully integrated operations in both Canada and the United States.

Progress in joining the two companies has been most gratifying although a number of major changes were necessary. The boards of directors and managements of the two were made identical to facilitate operating the companies as a single unit. Four new directors were appointed to the board, bringing greater knowledge and experience to the policy making level. None of the directors, except the president, is a Husky employee. Top executive officers of the two companies form an operating or internal board responsible to the board of directors for conducting day-to-day operations and planning the Company's progress.

This annual report shows that combining the two companies has resulted in one company considerably larger and more capable of showing sound growth in the highly competitive oil industry of two nations.

Modernization and expansion of the Cody, Wyoming refinery, begun in 1959, was completed late in 1960. The plant is now capable of supplying Husky's customers with the highest quality petroleum products available. A new finished products pipeline connects the refinery with other pipelines at Billings, Montana which serve most of the Company's markets.

For many years, Canadian Husky has been awaiting regulatory decisions to unlock its large capital investment in natural gas producing properties in Alberta. In 1960, final approvals were received and construction began immediately on facilities to move hundreds of millions of cubic feet of natural gas to markets daily by 1962. Gas sales from the Dick Lake field in which we have an interest have already begun at the rate of 73 million cubic feet daily. Sales from Dick Lake should nearly double and sales from our other major Alberta gas field at Savanna Creek will begin when new transmission lines to California and the Pacific Northwest are completed late in 1961.

The government of Canada has announced a new national oil policy, establishing specific goals for crude oil production over the next four years. Achievement of these goals will benefit Husky substantially because most of our oil reserves are in high potential fields which have been severely curtailed by market prorationing. High potential fields in Alberta will supply most of the increased production under the oil policy.

For a number of years, Husky has experimented with methods of extracting liquid oil products from coal through carbonization. In the process of our research we achieved a major scientific breakthrough in the manufacture of an entirely new lignite briquette for barbecue use which is comparable to briquettes made from hardwood charcoal. The briquettes, now being made at Husky's Dickinson, North Dakota plant, will

be marketed throughout the United States and Canada by The Kingsford Company, the world's largest marketer of charcoal briquettes. We expect this new venture to add appreciably to earnings, beginning in 1961.

Husky's subsidiary, Gate City Steel, Inc. has also undergone changes. Its operations at Boise, Idaho have been merged into a new company, Bannock Steel Corporation, in which Gate City holds a 50% interest. Bannock Steel has fabricating, warehousing and equipment plants in Idaho and provides steel service to a large portion of the Northwestern states.

Many familiar patterns in the oil industry have undergone fundamental changes in the past few years as the impact of over-capacity has been felt. In the years immediately ahead, we look for continuation of many problems but we are confident that Husky is now in a position to cope with them successfully. Our competitive effectiveness in refining and marketing has been much improved and will see further improvement through developments now in planning stages. Our production will increase greatly with the advent of new markets for Canadian oil and gas. Our exploration potential is enhanced by sizeable land holdings in attractive areas. Our non-oil activities are now better able to contribute to earnings. All of these factors add to our confidence in Husky's future.

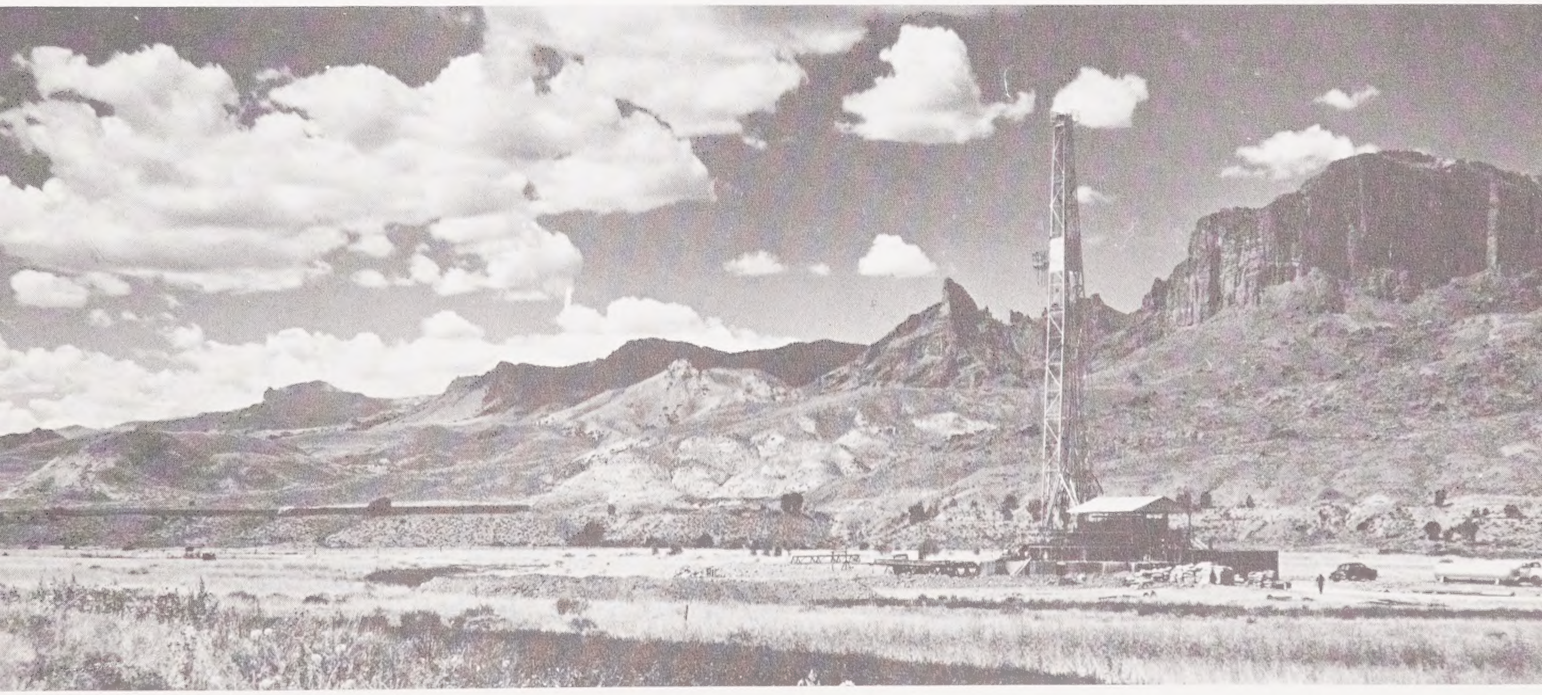
The board of directors extends its sincere appreciation to all shareholders for continued ownership interest and for their loyal support of the share exchange between the two Husky companies. Appreciation is also due our employees in both Canada and the United States for their fine performance in a difficult year of transition.

Sincerely,

Glenn E. Nielson

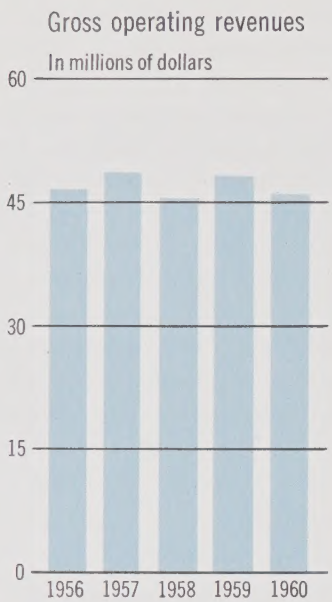
March 25, 1961

PRESIDENT



Review of 1960

Financial



The consolidated financial statements of Canadian Husky Oil Ltd. include for the first time Husky Oil Company and its subsidiaries Gate City Steel, Inc.—Omaha and Rimrock Tidelands, Inc. The fiscal years of United States subsidiaries were changed from June 30 to December 31 effective with 1960 and both the financial statements and the financial and operating summary have been adjusted to reflect this change for prior years.

The consolidated financial statements show gross operating revenues of $46,053,000 for 1960, down 5% from $48,432,000 in 1959. The Company's earnings for 1960, including non-operating profit, were $7,013,000 before deducting charges set out below.

Deductions from net earnings for 1960 included $2,153,000 for exploration, $1,748,000 for interest expense, $4,500,000 for depreciation, amortization and depletion and a write-down of $763,000 in connection with Rimrock Tidelands, Inc. After deducting these charges and giving effect to minority interests, the Company recorded a net loss of $2,161,000 for 1960 compared with a net loss of $1,194,000 for 1959.

Principal items contributing to the increased net loss were the write-down of investment in foreign subsidiaries of Rimrock Tidelands, Inc., losses attributable to a former subsidiary of Gate City Steel, Inc. now liquidated, and start up expense on new facilities at both the Cody refinery and the Dickinson briquetting plant.

Gross income from Canadian operations increased by 2.4%. A gain of 3.2% in net refinery and marketing sales was partially offset by a decline of 6.5% in oil and gas production revenues. Dollar values of sales of gasolines and other light end products through the bulk plant and service station division increased by 9.7%.

A shut down of the Cody refinery for 37 days to permit tie-in of new units contributed to the 5.9% reduction in refinery and marketing sales in the United States. Continuation of severe price competition in our market area also contributed to the decrease.

Steel profits showed the effects of a lower level of business activity in the United States and resulting sharp competition. Gate City Steel's Boise, Idaho subsidiary has been merged with another steel and equipment company operating in Idaho to form Bannock Steel Corporation. Gate City Steel owns a 50% interest in the new corporation which is not consolidated for financial purposes.

The consolidated balance sheet for December 31, 1960 shows Husky's financial position remains strong although net working capital was down from the previous year-end due primarily to construction of Cody refining units. Net working capital was $8,924,000 with $4,654,000 in cash and equivalent. A further $8,000,000 is available from a Canadian bank on a standby basis for future requirements. Of that amount $5,000,000 is available for production loans and $3,000,000 for working capital loans.

The Company has issued an additional 2,780,148 common shares in exchange for 99% of the outstanding common stock of Husky Oil Company. There are a total of 5,836,982 Canadian Husky common shares outstanding which are listed on the Toronto, Montreal and American stock exchanges. Canadian Husky's common and preferred shares are held by approximately 11,600 shareholders of record including residents of every Canadian province, every state and several foreign countries.

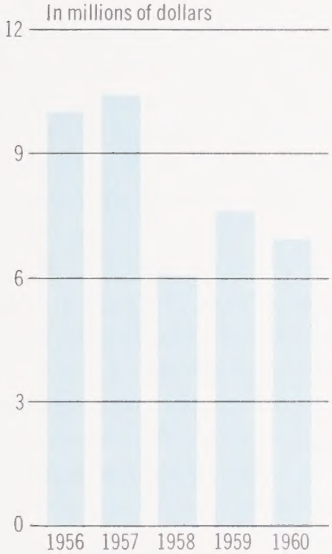
Growth expenditures for 1960 reflect spending of $5,200,000 for expansion of the Cody refinery and $619,000 for construction of gathering and processing facilities for marketing gas from Dick Lake. A comparison of growth expenditures for 1960 and 1959 follows:

GROWTH EXPENDITURES

	1960	*1959*
Exploration	$ 2,289,621	$ 2,154,748
Development	2,373,078	2,511,679
Refining and manufacturing	6,218,266	960,117
Drilling equipment	137,033	908,618
Marketing	1,087,876	509,812
	$12,105,874	$ 7,044,974

Net operating profit before depreciation and depletion

In millions of dollars



The finished products pipeline from Cody to Billings, Montana was built and financed by others with Husky retaining an option to purchase after five years.

Husky's most important producing assets in Canada have not yet contributed their full potential to the Company's earnings. Natural gas reserves have been withheld from waiting markets pending decisions from regulatory agencies in both Canada and the United States. Crude oil reserves in our most productive and profitable fields have been restricted by provincial prorationing due to lack of adequate markets.

In 1960, regulatory barriers to export of gas from Canada were removed and by early 1961, both gas and gas liquids were being sold from the Dick Lake field. By the end of 1961, production from Dick Lake will nearly double the initial 1961 volume and Savanna Creek gas will flow to market at about 50 million cubic feet daily. Attainment of the crude oil production goals established by Canada's national oil policy will benefit Husky's Canadian oil production to a much greater extent than most other Canadian companies. These events will result in a very substantial increase in the Company's total cash flow from production by 1962. Major increases are also expected from new facilities at the Cody refinery and from manufacture of barbecue briquettes.

Land and Exploration

ACREAGE HOLDINGS

	Gross Acres	*Net Acres*
CANADA		
Alberta	1,105,026	463,232
British Columbia	217,328	101,221
Saskatchewan	484,778	346,317
Yukon and Northwest Territories	2,751,477	441,359
Total Canada	4,558,609	1,352,129
UNITED STATES		
Alaska	668,312	236,030
Gulf Coast States	31,450	8,004
Rocky Mountain States	346,425	279,157
Southwestern States	65,648	41,168
Other areas	2,731	2,731
Total United States	1,114,566	567,090
FOREIGN: (Held by Husky's 61% owned subsidiary.)		
Tunisia	3,975,345	3,975,345
Total all areas	9,648,520	5,894,564

In 1960, Husky's efforts were directed toward improving the quality of its exploratory land holdings by acquiring blocks in areas where production, if found, can be readily marketed. We also evaluated other blocks and dropped lands shown to be less desirable. Under this policy, we added 1,635,000 gross acres and surrendered 1,772,000 acres. Our percentage interest in new land is considerably greater than in land dropped and, therefore, our net holdings increased by 392,000 acres even though gross acreage decreased.

Our aim is to build an adequate inventory of promising land, carried at minimum rental expense, which will be actively explored by wildcat drilling when income from present producing properties can support such a program. Working under this policy in 1960, our land activity resulted in definite improvement in the Company's land picture.

A portion of Husky's land in the Bethel Basin area of western Alaska was pooled with acreage held by other companies to form the Napatuk Creek Development Contract. A number of interesting geological features were located on the 465,000 acre contract area by seismic surveys and stratigraphic tests carried out over the past two years. Following the freeze-up early in 1961 a drilling rig was moved onto one location and it is now drilling ahead.

We have worked with others on gravity meter surveys of other Alaska acreage along the shores of Bristol Bay and have acquired additional land on the north shore of Cook Inlet opposite major oil and gas fields now established on the Kenai Peninsula. We are confident that substantial oil and gas production will be established in Alaska and that crude oil in particular can find markets in Pacific Coast refining centres. Most of the areas we are exploring are accessible by ocean tanker through year-round ice-free outlets.

One of the most significant discoveries made by Husky in 1960 was the No. 1 E.M. Dupree located in the South Welch area of Dawson County, Texas. We hold a 50% interest in 1,280 acres on which three wells have now been drilled. On 24 hour state potential test, the discovery well flowed 428 barrels of 40 degree gravity oil.

In 1960 Husky entered the oil and gas play in northeastern British Columbia by acquiring a 100% interest in 72,000 acres in the Pine Pass area and a 20% interest in 145,000 acres in the Grayling area. Exploration activity by many companies holding land in British Columbia has been spurred by announced plans to construct oil and gas pipelines connecting new discovery areas with markets.

In Alberta, we acquired 516,000 acres of attractive exploratory land, participated in drilling four wildcat wells outside the Lloydminster area and carried out development work on our natural gas properties. New acreage blocks were acquired in the foothills gas exploration area, in the central basin and in the northern portion of the province where active exploration is beginning. Two of the wildcat wells were farmouts; none encountered production and all were abandoned.

We participated in drilling a fifth gas condensate development well in the Dick Lake unitized field. The Dick Lake unit was expanded in 1960 to include additional productive acreage held by other companies. Husky's interest was reduced to 9.4% but our total gas reserves in the larger unit increased slightly.

A gas development well was started in 1960 at the Savanna Creek field and another is planned for this year. Husky's interest in this important field is 32.5%. The two new wells are expected to give sufficient deliverability to fulfill the gas sales contract of 50 million cubic feet per day. An application for construction of a gathering system and a sulphur removal plant to serve Savanna Creek has been approved. The contract calls for delivery of gas at the well head and we do not expect to participate in gathering and processing facilities.

We have entered into a joint exploration agreement with two other independent oil companies under which each company has assigned a geologist to study certain areas of western Canada and has budgeted funds for joint land acquisition and evaluation. The agreement applies only to properties acquired jointly by the group and Husky's own lands are not affected. By pooling a portion of their exploration activity, the companies will be able to participate in exploring areas where high costs prohibit their individual efforts.

In the Lloydminster area, covering a portion of both Alberta and Saskatchewan, we continued to acquire land and explore for the purpose of establishing long-term economic reserves for Husky's refinery there. During the year, we drilled eight ex-

ploratory wells resulting in two discoveries and three field extensions. We also drilled four stratigraphic tests, two of which indicated commercial production, and ten development wells of which six were successful.

Husky's subsidiary, Rimrock Tidelands, Inc., acquired 3,975,000 acres of exploratory land in Tunisia in 1959 and carried out preliminary evaluation work in 1960. Results to date indicate several anomalies that warrant further study. Oil and gas have recently been discovered in Algeria approximately 20 miles west of one block of Rimrock's Tunisian land.

Husky participated in drilling 54 gross wells equal to 24.3 net wells on Company owned land. Another nine wells were drilled on lands in which we hold royalty interests.

1960 DRILLING (gross wells)

	Total	*Oil*	*Gas*	*Abandoned*
Exploratory wells	30	6	2	22
Development wells	24	13	3	8
Total	54	19	5	30

In addition, there were four wells drilling at the end of the year. Five stratigraphic tests are not included above.

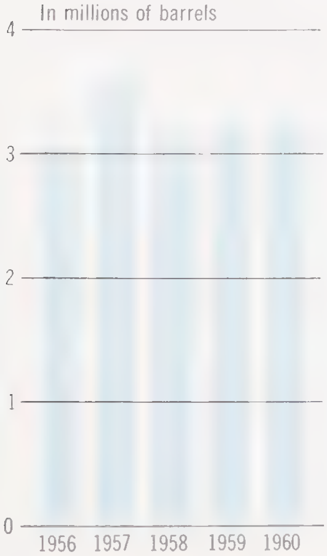
CRUDE OIL PRODUCTION (barrels)

	1960	*1959*
Alberta	177,699	195,346
Saskatchewan	225,952	248,322
Lloydminster	370,375	376,861
Colorado	432,823	452,877
Texas	602,046	585,268
Wyoming	1,105,593	997,632
Other areas	251,429	297,004
Total	3,165,917	3,153,310

The slight gain in crude oil production is more significant in the light of severe market prorationing in both Texas and Alberta. Production allowables for the state of Texas decreased from an average of 10.2 producing days per month in 1959 to 8.6 days in 1960, yet Husky's production from the state increased by 17,000 barrels due to discovery and development of new fields.

Net crude oil production

In millions of barrels



1960 production allowables for the province of Alberta averaged 41% of effective potential and Husky's production decreased. Most of our Alberta reserves are in high potential fields which are the ones most heavily curtailed under prorationing regulations. Production from one of those fields, Westerose, averaged only 11% of potential in 1960.

The same fields which suffered so heavily from Alberta prorationing in 1960 stand to gain the most from expanded markets for Canadian crude oil. Under the Canadian government's new national oil policy, specific production goals have been established averaging 640,000 barrels daily for 1961 and 800,000 barrels daily for 1963. The bulk of the increase will fall to those few high potential but very severely curtailed fields in Alberta. If the first year's goal is achieved, Husky's income from Canadian oil and gas sales in 1961 is expected to double the 1960 total.

Sales of natural gas and liquid by-products from the Dick Lake field in Alberta began early in 1961. The field is now selling gas under a contract calling for minimum delivery of 73 million cubic feet daily which is approximately 43% of the maximum under two signed contracts. Natural gas liquids—crude condensate, propane and butane—extracted from raw gas are currently being sold under short term arrange-

ments at favorable prices. Construction of additional pipelines to carry Canadian gas to California is expected to be completed late in 1961 and sales under the second contract will then begin.

Refining and Manufacturing

CRUDE OIL PROCESSED (barrels)

Refinery	*1960*	*1959*
Cody, Wyoming	1,996,915	2,212,815
Fort William, Ontario	1,169,256	1,230,030
Lloydminster, Alberta	897,233	1,131,016
Moose Jaw, Saskatchewan	1,046,771	1,072,796
Total	5,110,175	5,646,657

Most of the decrease in refinery throughput was accounted for by two factors: shut down of the Cody refinery for 37 days to permit tie-in of new refinery units and a reduced throughput at the Lloydminster plant.

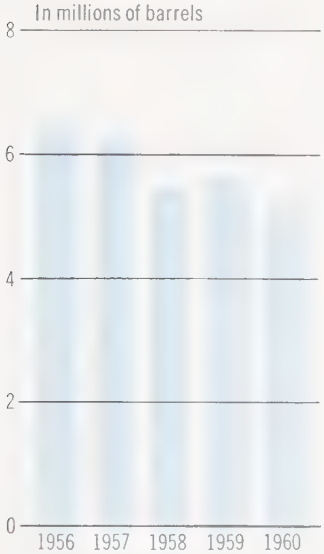
Modernization and expansion of the Cody refinery was completed and the new units went on-stream in December. Capacity was increased to 9,000 barrels daily, a level considered adequate to meet present market requirements. However, facilities have been engineered to permit further expansion to 12,000 barrels per day with relatively small additional investment. Principal new units installed include a fluid catalytic cracker, an alkylation unit and gas concentration unit. The new units provide larger proportions of gasolines and other light end products which make it possible to serve the entire needs of the U.S. marketing organization.

A 96-mile finished products pipeline from Cody to Billings, Montana was completed in December with a capacity of 10,000 to 12,000 barrels daily, depending on the products transported. At Billings, it connects with Oil Basin Pipeline which carries products east to Glendive, Montana and with Yellowstone Pipe Line which moves products west to Spokane, Washington, through the heart of Husky's U.S. marketing territory. A spur line off the Yellowstone system was constructed from Helena to Great Falls, Montana. Substantial savings in transportation costs are possible in serving these markets direct from the Cody refinery by pipeline.

We were also able to effect substantial savings in transportation costs by changing the

Crude oil processed

In millions of barrels



method of supplying crude oil to the Fort William, Ontario refinery. In 1960, we began taking crude from Saskatchewan fields via Interprovincial Pipe Line to Superior, Wisconsin and from there to Fort William by tanker. To accomplish this, six 80,000 barrel storage tanks were added at the refinery making it possible to store sufficient crude for winter operations.

In March, 1961, Husky began production of a new barbecue briquette made from lignite at its Dickinson, North Dakota plant. Development of the briquette by Husky and independent research and engineering consultants retained by the Company has been called a major scientific breakthrough in the outdoor cooking field. The plant yields a product with excellent starting, burning and aroma characteristics, ideally suited for preparing foods.

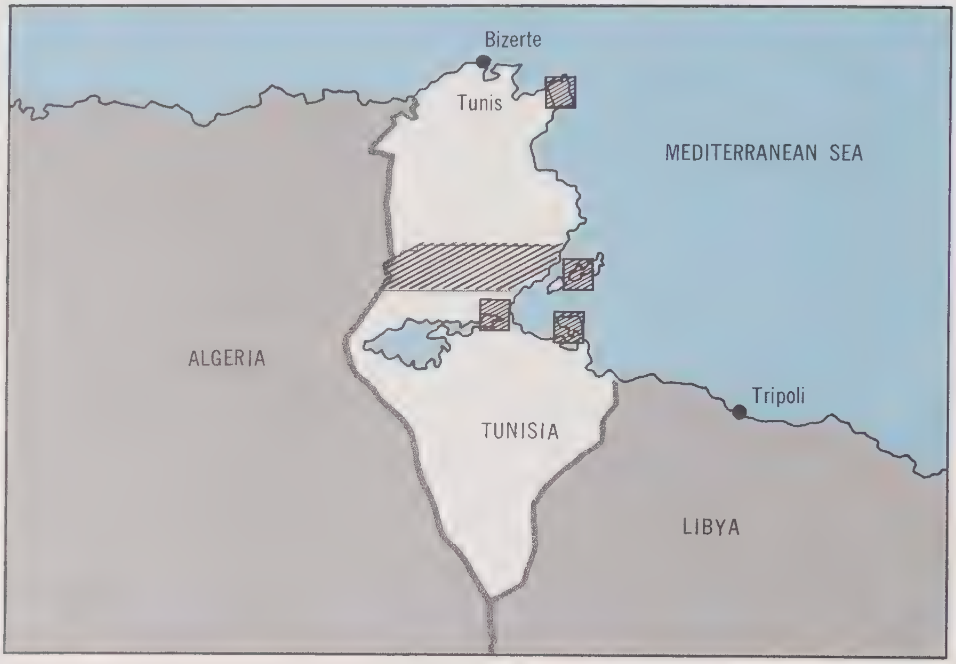
We acquired the Dickinson plant which previously produced only industrial briquettes and modified it at a cost of approximately $500,000. An estimated 6,575,000 tons of lignite reserves were also acquired in the immediate area to assure a long-term plentiful supply of raw material.

Under an agreement between Husky and The Kingsford Company, the entire plant output of barbecue briquettes, except for volumes to be available through Husky service stations, will be marketed in the United States and Canada by Kingsford under the brand name "Grill Time". In 1961, the plant is expected to produce approximately 12,000 tons of barbecue briquettes and 19,000 tons of fuel briquettes.

Husky's net refinery and marketing sales for 1960 were $27,549,000, a decrease of 1.3% from $27,908,000 for 1959. Total volume of sales was approximately 6.0% lower than last year. An important highlight of the year was a 16% increase in volume of gasoline sales in Canada.

Prior to completion of the catalytic cracking unit at Cody, a portion of refinery runs was sold to other refiners as a feed stock for their cracking units. Late in 1960, we began running this product to tank storage to build an adequate supply for our own cracking operations which began in December. This reduced our refinery sales for the year.

Despite a 21% reduction in throughput at our Lloydminster refinery, profits from



Bizerte
Tunis
MEDITERRANEAN SEA
ALGERIA
Tripoli
TUNISIA
LIBYA

ARCTIC OCEAN
ALASKA
Anchorage
YUKON TERR.
Juneau
B.C.

YUKON TERR.
B.C.
Vancouver
Spokane
WASH.
HUSKY
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Boise

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algary
HUSKY
Regina
Winnipeg
Fort William
ONT.
Montreal
Ottawa
Toronto
Great Falls
MONT.
N.D.
Dickinson
Cody
WYO.
NEB.
Omaha
COLO.
N.M.
Midland
TEX.
Shreveport
LA.
ALA.
Legend
Operating offices
Principal oil and gas producing areas
Refinery
Marketing areas
Areas of oil and gas exploration
Briquette plant
Steel fabricating plants
Contract drilling operations

that plant were slightly higher in 1960 than in 1959. Continued decline in markets for residual fuel oil on the prairies forced volume reductions but a more profitable balance of products offset the reduction.

With the combining of Canadian Husky and Husky Oil into a single operating unit, the marketing area served with Husky brand petroleum products now extends from eastern Ontario to Alberta and Washington and as far south as Utah. Husky products are sold to motorists, truckers, home owners, industries, ship operators and highway builders in five Canadian provinces and seven western states. Husky is the only independent company marketing its products in both countries under one brand name.

At the end of 1960, Husky products were being sold through 374 retail and 150 wholesale outlets, an increase of 30 units over the total at the end of 1959. There are 23 large, high volume highway outlets called Travelcentres in Canada or Super Stops in the United States, which contain restaurants, over-sized service bays and dormitory, lounge and shower accommodations for truckers. We expect to increase the number of this type of outlet and to expand the types of service available at each location through imaginative attention to travellers' needs.

Husky is also a leader in the manufacture and sale of asphalt in western Canada and United States. Literally thousands of miles of high quality roads and streets have been paved with asphalt from the four Husky refineries.

The demand for asphalt in both countries continued high but profit margins, particularly in the United States, deteriorated under the influence of excess productive capacity in our market area. With announcement of the U.S. interstate highway construction program, many refiners who had not previously been significant producers installed facilities for large volume asphalt production. As a result, supply exceeded market in 1960 and price structures came under heavy pressure. As the interstate highway program expands, we expect this imbalance to be at least partially corrected.

Sales of bunker fuel from our fueling ship, the *Husky 120*, increased in 1960, as Great Lakes shippers utilized its service to a greater extent. The *Husky 120* fuels ships calling at the twin ports of Fort William and Port Arthur, Ontario as they load and discharge cargo, thus eliminating special fueling stops.

The 19 Husky House restaurants in Canada set new records in 1960, serving more than 2,000,000 customers. The restaurants are operated in conjunction with Travelcentres and larger service stations. They attracted an estimated 1,000,000 cars to Husky retail outlets in 1960.

Husky's competitive position in marketing gasolines and other light end products in the United States has been greatly improved by modernization of the Cody refinery and construction of the finished products pipeline to Billings, Montana. Refining and marketing operations in the United States are now essentially in balance.

In 1961, we expect to continue expansion of marketing in both countries, by acquiring and building new Husky service stations and bulk plants. We will also continue to up-grade present outlets by modernization and, in some cases, by dropping substandard facilities. Our objective is the development of a chain of modern, well located Husky outlets capable of providing quality products and efficient, friendly service to our customers.

Employees

At the end of 1960, 1,254 men and women were employed by Husky and its subsidiaries in Canada and the United States. We continued training and tuition aid programs aimed at developing competent managerial people capable of assuming responsibilities as the Company's operations expand.

Employees throughout the Husky organization compiled an admirable safety record in 1960. In addition to the obvious benefits to employees, continued emphasis on safety has resulted in marked reductions in the Company's expenses.

Market Promotion

The Company has begun a long range program of sales promotion and advertising to bring the many high quality Husky products and services to the attention of consumers throughout our market area.

Within its market area Husky serves motorists visiting six of the most scenic and popular national parks in North America: Grand Teton, Yellowstone and Glacier in the United States; and Waterton Lakes, Banff and Jasper parks in Canada. There are four other major national parks and numerous state and provincial parks within the same area, all of which attract large numbers of motorists each year.

Beginning in 1961, we will urge motorists to "Travel the Husky Route" in Canada and the United States, making full use of Husky facilities and credit card privileges. Our marketing program which emphasizes service to highway travellers is well suited to travel promotion over specific routes. "Travel the Husky Route" will be promoted through regional advertising, using the road sign format shown on this page, highway signs where practical and point-of-purchase materials.

We also promote broader use of asphalt in many types of construction through sales promotion materials made available to contractors. An advertising program using selected journals directed to street and highway agencies of various government levels actively promotes construction of high quality asphalt roads. Technical services of Husky personnel are made available to road builders to assist them with design and construction.

Most of our Husky dealers are independent business men operating under lease or mortgage arrangements with the Company. We believe that marketing profits to the Company are greatest when dealers operate on a sound business basis and earn a reasonable profit. A travelling Husky Service Clinic takes instruction in service station management, merchandising and employee training direct to the dealer's place of business. The Clinic is also used extensively for product demonstrations for the benefit of customers.

We have also directed our attention to uniformity in Company identification in Canada and the United States. New easily recognizable signs now appearing at Husky locations provide quick identification of our service stations.

Gate City Steel, Inc.—Omaha

Gate City Steel operates a steel fabrication plant in Omaha, Nebraska and warehouses in Omaha and Columbus, Nebraska. It owns a 50% interest in Bannock Steel Corporation which operates steel plants in Pocatello and Boise, Idaho.

In 1960, excess capacity in the steel fabricating and warehousing industry caused intense price competition which limited Gate City's earnings. Gross sales for the year were $7,442,000, and gross profit $1,529,000. Included in results for the calendar year 1960 are operating losses and liquidation write-offs of $205,000 attributable to a wholly-owned subsidiary now substantially liquidated. After deducting these and other charges, Gate City ended 1960 with a net loss of $31,000.

Steel industry conditions are expected to remain relatively unchanged during the first half of 1961 with improvement possible in the latter half. Gate City is continuing its efforts to enhance its competitive position through cost reduction. Considerable savings have already been achieved by concentrating operations at Omaha.

In December, 1960, Gate City made an offer to its stockholders other than Husky to exchange one share of a new $20 par value 7% cumulative preferred stock for each four common shares. Purpose of the offer was to re-acquire all common stock not owned by Husky. Since Gate City's 6½% preferred stock carried warrants to purchase common shares, the exchange offer was also made to holders of that stock on a share for share basis.

By March 1, 1961, sufficient exchanges had been made that Husky owned 98.5% of Gate City's common stock. If the offer is fully accepted, Husky will increase its flexibility in managing this important subsidiary.

Lawrence W. Lee, Senior Vice President of Husky has been named Chairman of the Board of Gate City, succeeding N. R. Knox who has retired. Mr. Knox continues to serve as a director.

Rimrock Tidelands is a contract drilling company operating eight land rigs and two off-shore drilling barges in the Gulf Coast area of the United States. It also owns 71 net producing oil and gas wells, and through a wholly-owned foreign subsidiary, holds large blocks of exploratory acreage in Tunisia. Husky now owns 61% of Rimrock's outstanding common stock.

Rimrock showed a net operating profit of $30,000 for its ten months fiscal period in 1960, before special charges amounting to $847,000. Special charges were a $763,000 write-down of investments in foreign subsidiaries holding land in Turkey and Italy and a loss of $84,000 on disposal of assets. After deducting these charges, Rimrock's net loss for the period was $817,000. Although 1960 was not considered a good year for the drilling industry, Rimrock achieved a record high cash flow of $1,216,000 from contract drilling operations for the calendar year. The company's rigs drilled 53 wells for a total of 608,000 feet. Net oil production for the period was 341,000 barrels and gas production was 805 million cubic feet.

All of Rimrock's foreign holdings were released except 3,975,000 acres in Tunisia which are believed to have excellent potential. Geologic evaluation of the land has led to location of very promising structures which will warrant exploratory drilling.

During 1960, Rimrock also made commendable progress in reducing its fixed debt from $3,583,000 to $2,622,000, in reducing drilling expense in relation to revenues, in sharply cutting administrative and general expense and in improving both drilling equipment and producing properties.

While the company's financial position is already substantially improved, management will continue to exploit methods of cost reduction leading to increased earnings. An increase in exploration operations is planned on a basis consistent with earnings.

Consolidated Balance Sheet, December 31,

Assets

	1960	1959
Current Assets:		
Cash	$ 4,609,932	$ 5,811,227
Government and other marketable securities—at cost which approximates market	43,879	2,668,504
Notes and accounts receivable, less allowance for doubtful accounts 1960, $295,883; 1959, $358,985	7,654,138	8,108,212
Inventories at lower of cost or replacement market	8,341,654	7,364,629
Prepaid expenses	693,642	565,744
Total current assets	21,343,245	24,518,316
Non-Current Assets:		
Investments in and advances to subsidiaries not consolidated—at cost less amounts written off	554,979	2,020,376
Notes and contracts receivable, less amounts due within one year included in current assets above	1,946,193	1,416,994
Sundry investments and miscellaneous assets (Note 2)	2,857,958	2,014,832
	5,359,130	5,452,202
Property, Plant and Equipment (Note 3):		
Developed oil and gas properties (including shut-in gas wells) and equipment	35,619,495	33,904,470
Refining, manufacturing and marketing facilities (including land) and other assets	33,023,984	27,521,042
Drilling rigs and equipment	6,532,694	6,758,759
	75,176,173	68,184,271
Less accumulated depreciation and depletion	28,895,552	25,406,250
	46,280,621	42,778,021
Undeveloped oil and gas properties	3,813,659	3,369,484
	50,094,280	46,147,505
Other Assets—at cost less amounts written off	2,095,196	1,956,809
	$78,891,851	$78,074,832

The accompanying notes and the statement in accordance with Section 118
Subject to the report of Peat, Marwick, Mitchell &

1960 (with comparative figures at December 31, 1959)

Liabilities

	1960	1959
CURRENT LIABILITIES:		
Notes payable to banks, partly secured	$3,101,000	$ 238,396
Accounts payable and accrued expenses (including taxes, other than income, payable to Canadian authorities 1960, $146,510; 1959, $134,102)	5,586,407	4,747,338
Current portion of long term debt	3,731,638	3,225,045
Total current liabilities	12,419,045	8,210,779
LONG TERM DEBT (Note 4)	29,686,040	29,948,729
NOTES PAYABLE (Note 5)	3,000,000	3,000,000
MINORITY INTERESTS IN SUBSIDIARY COMPANIES	7,624,922	8,386,063
STOCKHOLDERS' EQUITY (Notes 5 and 6):		
Six per cent (6%) cumulative, redeemable, preferred shares, par value $50 each; authorized 80,000 shares; issued and outstanding 71,363 shares	3,568,150	3,568,150
Common stock par value $1 per share; authorized 10,000,000 shares; issued and outstanding 5,836,982 shares	5,836,982	5,836,982
Other paid in capital	21,078,177	21,288,275
Deficit	(4,321,465)	(2,164,146)
	26,161,844	28,529,261
COMMITMENTS AND CONTINGENCIES (Note 7)		
	$78,891,851	$78,074,832

Approved on behalf of the Board:

GLENN E. NIELSON, *Director*

F. R. MATTHEWS, *Director*

of the Companies Act are an integral part of the financial statements.

, Chartered Accountants, dated March 20, 1961.

Consolidated Statement of Earnings

Year ended December 31, 1960 (with comparative figures for 1959)

	1960	1959
INCOME:		
Net sales and operating revenues	$46,052,917	$48,432,137
Cost of sales and operating expenses, exclusive of expenses specifically set forth below	33,839,953	35,787,975
Selling, general and administrative expenses (including for 1960, officers' salaries $317,957, directors' fees $9,000 and legal fees $52,104)	5,430,565	5,388,936
	39,270,518	41,176,911
Net operating profit exclusive of depreciation and depletion	6,782,399	7,255,226
Other income—net	230,563	394,030
Net earnings before other charges	7,012,962	7,649,256
OTHER CHARGES:		
Lease abandonments, non-productive drilling and undeveloped lease expense	1,707,297	1,708,369
Write down of investments in foreign subsidiaries	763,089	99,027
Land, exploration and geological department expense	445,271	381,438
Interest charges	1,748,231	1,565,855
	4,663,888	3,754,689
Earnings before depreciation and depletion	2,349,074	3,894,567
Depreciation and amortization	3,512,390	3,929,170
Depletion	987,353	1,094,369
	4,499,743	5,023,539
Net loss before income taxes	(2,150,669)	(1,128,972)
Provision for income taxes of subsidiary companies	18,209	11,017
Net loss before minority interests	(2,168,878)	(1,139,989)
Adjustments for minority interests		
Dividends on preference shares of subsidiaries	325,617	312,196
Interests in losses of subsidiaries	(333,160)	(258,136)
	(7,543)	54,060
Net loss	$(2,161,335)	$(1,194,049)

Consolidated Statement of Surplus

Year ended December 31, 1960

	Other Paid in Capital	Deficit	Total
BALANCE AT BEGINNING OF YEAR	$21,288,275	$(2,164,146)	$19,124,129
Add: Sundry credits	3,991	4,016	8,007
	21,292,266	(2,160,130)	19,132,136
Deduct: Net loss for the year		2,161,335	2,161,335
Dividends paid on 6% cumulative redeemable preferred shares	214,089		214,089
	214,089	2,161,335	2,375,424
BALANCE AT END OF YEAR	$21,078,177	$(4,321,465)	$16,756,712

The accompanying notes and the statement in accordance with Section 118(2) of the Companies Act are an integral part of the financial statements.

Notes to the Consolidated Financial Statements

December 31, 1960

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the consolidated accounts of Husky Oil Company of Cody, Wyoming, on a "pooling of interests" basis and at par of exchange, and include the accounts of all subsidiaries except for certain European subsidiaries of Husky Oil Company. The investment in and advances to these European subsidiaries are carried on the accompanying consolidated balance sheet at $554,979, future realization of which is dependent upon discovery of minerals in commercially productive quantities.

2. SUNDRY INVESTMENTS AND MISCELLANEOUS ASSETS:

Included under this heading is an amount of $331,801 with respect to income taxes paid by a United States subsidiary for which suit for recovery has been filed.

3. PROPERTY, PLANT AND EQUIPMENT:

All property, plant and equipment is carried at cost less accumulated depreciation and depletion except for certain petroleum and natural gas properties located in the Lloydminster area which were revalued and written down at January 1, 1958 to revised values determined by the company's engineering and production staff.

4. LONG TERM DEBT—Secured:	1960	1959
3¾% First Mortgage Serial Bonds, Series A, maturing December 15, 1961	$ 750,000	$ 1,400,000
5% Sinking Fund Debentures, Series A, maturing December 15, 1969	5,387,000	5,520,000
5½% Sinking Fund Debentures, Series B, maturing May 1, 1973	3,282,500	3,360,000
6% Sinking Fund Debentures, Series A, maturing May 1, 1969	1,250,000	1,250,000
Mortgage, no interest, maturing December 1, 1968	3,369,488	3,685,377
Secured promissory notes		
5¼%-6% maturing quarterly	8,710,000	9,570,000
6% maturing June 30, 1963	5,000,000	—
Other notes and contracts with varying maturities	5,668,690	8,388,397
	33,417,678	33,173,774
Less amounts due within one year	3,731,638	3,225,045
	$29,686,040	$29,948,729

The indenture attaching to the 5¼% - 6% promissory notes set out above in the amount of $8,710,000 requires, under conditions specified therein, "mandatory contingent payments" without premium in the inverse order of maturity.

5. CAPITAL:

During the year ended December 31, 1960, Canadian Husky Oil Ltd. completed an exchange offer made to the holders of the outstanding common shares of Husky Oil Company whereby 99% of the outstanding common shares of that company were acquired by Canadian Husky in exchange for 2,780,148 of its common shares, of which 31,994 were issued subsequent to December 31, 1960. The accompanying consolidated financial statements reflect the issue of all shares pursuant to the exchange offer including those issued subsequent to December 31, 1960. Under the terms of an agreement with two persons dated May 19, 1960, covering the exchange of their shares of Husky Oil Company, an additional 138,909 common shares of Canadian Husky have been reserved and may be issued to them. The issue of these shares is dependent on certain properties attaining a specified valuation on or before June 30, 1965. In this event, the amount of $138,909 representing the aggregate par value of the shares then issued will be transferred from other paid in capital to the common share account.

At December 31, 1960, there were stock purchase warrants outstanding giving to the holders thereof the right to purchase 307,660 common shares of the company. These warrants are exercisable as follows:

270,160 at $14 per share up to and including December 14, 1964.

37,500 at $24 per share up to and including August 1, 1967.

The agreement covering the Notes Payable in the amount of $3,000,000 provides that the money advanced shall be payable on demand without interest, except that it may be repaid in common shares of Canadian Husky Oil Ltd. on the basis of $17 per share at the election of

either party. It would require 176,470 of the unissued shares of the company to repay the advance, and such shares have been reserved for this purpose.

At December 31, 1960, 350,000 common shares were reserved for issue pursuant to a Share Option Plan for officers and employees of Canadian Husky Oil Ltd. and its subsidiaries. The number reserved was increased from 135,557 at December 31, 1959, to 350,000 during the year ended December 31, 1960. Information as to options granted, exercised, cancelled or terminated during the year ended December 31, 1960, is as follows:

Shares under option at December 31, 1959:
  109,900 shares at exercise prices ranging from $6.50 to $11.75 per share.

Option prices changed:
  57,500 shares had the option price lowered to $7.20 per share from option prices ranging from $7.50 to $11.75 per share.

Options granted:
  238,000 shares exercisable at $4.10 per share.

Options cancelled or terminated:
  93,525 shares exercisable at option prices of $6.50 or $7.20 per share.

Shares under option at December 31, 1960:
  254,375 shares at exercise prices ranging from $4.10 to $7.00 per share.

These options are or become exercisable during the years 1961 to 1969.

6. RESTRICTIONS ON DIVIDENDS:

The conditions attached to the preferred shares of the company provide for certain restrictions on the payment of dividends on its common shares. Under these restrictions none of the other paid in capital is available for dividends on the common shares as of December 31, 1960.

7. COMMITMENTS AND CONTINGENCIES:

Certain subsidiary companies have entered into long term agreements to lease items of property, plant and equipment at fixed annual rentals, which aggregate approximately $375,000.

A subsidiary company has guaranteed that it will use certain pipelines owned by related interests to such extent that the pipelines aggregate quarterly "operating revenue" will equal approximately $175,000 from 1961 to 1976 inclusive. The subsidiary company has the right at any time after five years to purchase the pipelines at a depreciated cost.

Subsequent to December 31, 1960, a subsidiary company, in accordance with an earlier agreement, contributed to Rimrock Tidelands, Inc. (a 61% owned subsidiary) drilling rigs and equipment valued at $400,000.

Certain other commitments or contingencies exist which may involve costs or losses arising in the ordinary course of business, the amounts of which, however, are not considered to be significant.

Statement in accordance with Section 118(2) of the Companies Act

The operations for the year ended December 31, 1960, of the company's subsidiaries not consolidated resulted in losses. Such losses have been reflected in the accompanying consolidated financial statements through the write down in carrying value of the investments in these subsidiaries.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Canadian Husky Oil Ltd. and subsidiaries as of December 31, 1960 and the consolidated statements of earnings and surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of earnings and surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Canadian Husky Oil Ltd. and subsidiaries, consolidated, at December 31, 1960 and the results of their operations for the year ended on that date after giving effect to the issue, subsequent to December 31, 1960, of certain additional common shares referred to in Note 5, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Calgary, Alberta
March 20, 1961

Canadian Husky Oil Ltd.

Board of Directors

W. Turner Clack, *Spokane, Washington.*
President, Western Terminal Co., Spokane and Chairman of the Board Walla Walla National Bank, Walla Walla, Washington.

R. L. Hunter, *Montreal, Quebec.*
Director and chief legal officer of W. C. Pitfield & Company Limited, Montreal.

J. L. Kalb, *Phoenix, Arizona.*
Independent petroleum management consultant.

M. A. MacPherson, Q.C., *Regina, Saskatchewan.*
Senior partner law firm of MacPherson, Leslie and Tyerman, Regina.

J. K. McCausland, *Toronto, Ontario.*
Vice President and a director of Wood, Gundy & Company, Limited, Toronto.

F. R. Matthews, *Calgary, Alberta.*
Partner law firm of Allen, MacKimmie, Matthews, Wood, Phillips and Smith, Calgary.

H. H. Millar, *Edmonton, Alberta.*
President and a director of Western Construction and Lumber Co. Ltd., Edmonton.

H. R. Milner, Q.C., *Edmonton, Alberta.*
Senior partner law firm of Milner, Steer, Dyde, Massie, Layton, Cregan and Macdonnell, Edmonton and Chairman of the Board of Canadian Utilities Limited, Northwestern Utilities Limited and Canadian Western Natural Gas Co. Ltd.

Glenn E. Nielson, *Cody, Wyoming.*
President of Canadian Husky and Husky Oil Company.

P. R. Payn, *Como, Quebec.*
President and a director of W. C. Pitfield & Company Limited, Montreal.

Lloyd Taggart, *Cody, Wyoming.*
President of the Two Dot Company and Chairman of the Board of Taggart Construction Company, Cody, Wyoming.

Officers

Glenn E. Nielson, *President.*

Geo. S. Buchanan, *Senior Vice-President.*

Lawrence W. Lee, *Senior Vice President and Chairman of the Board of Gate City Steel, Inc.–Omaha.*

M. R. McArthur, *Senior Vice President and President of Rimrock Tidelands, Inc.*

L. J. Campbell, *Vice President.*

A. C. Knight, *Vice President, Market Planning and Public Relations.*

Arnold Larsen, *Vice President, Finance.*

W. E. Powell, *Vice President, Exploration.*

Maurice E. Smith, *Vice President, Law.*

T. G. Wise, *Vice President, Refining and Marketing.*

J. D. Winzenried, *Assistant to the President and Assistant Secretary.*

D. R. Hagerman, *Treasurer.*

R. G. P. MacLellan, *Secretary.*

W. F. McWhinney, *Comptroller.*

J. L. Snith, *Assistant Secretary.*

D. H. Flora, *Assistant Secretary.*

Transfer Agents and Registrars

Common Shares—*Listed on the Toronto, Montreal and American Stock Exchanges.*

Montreal Trust Company, *Calgary, Halifax, Montreal, Regina, Saint John, Toronto, Vancouver and Winnipeg.*

The Chase Manhattan Bank, *New York.*

Preferred Shares

Montreal Trust Company, *Calgary.*

Canadian Husky Oil Ltd. *and subsidiaries*

Financial and Operating Summary

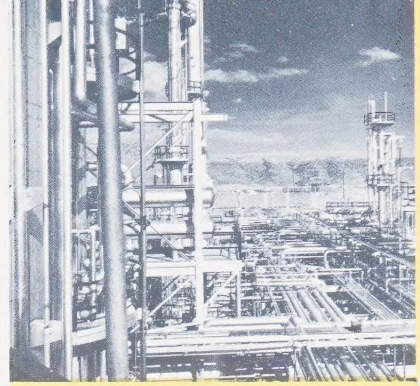
Financial

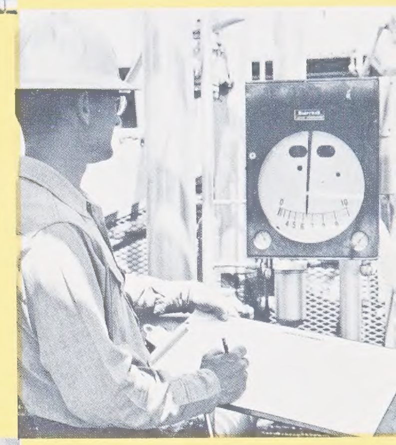
	1960	1959	1958	1957	1956
			(thousands of dollars)		
Gross operating income	$ 46,053	$ 48,432	$ 45,414	$ 48,488	$ 46,759
Costs, operating and general expenses	39,289	41,188	39,771	38,092	36,713
	6,764	7,244	5,643	10,396	10,046
Other income—net	231	394	407	142	203
	6,995	7,638	6,050	10,538	10,249
Other charges					
Depreciation and depletion	4,500	5,023	4,945	4,912	4,236
Exploration expense and overhead	2,916	2,189	2,903	1,984	3,010
Interest charges	1,748	1,566	1,224	1,239	1,142
	9,164	8,778	9,072	8,135	8,388
Net earnings (loss) before minority interests	(2,169)	(1,140)	(3,022)	2,403	1,861
Adjustments for minority interests	(8)	54	(632)	281	262
Net earnings (loss)	(2,161)	(1,194)	(2,390)	2,122	1,599
Net working capital	8,924	16,308	13,791	15,388	9,095
Long term debt	29,686	29,949	29,385	26,976	24,931
Preferred shares outstanding, at par value	3,568	3,568	3,568	3,568	3,568
Preferred share dividends	214	214	214	214	214
Common shares outstanding, at par value $1 per share*	5,837	5,837	5,837	5,395	4,751

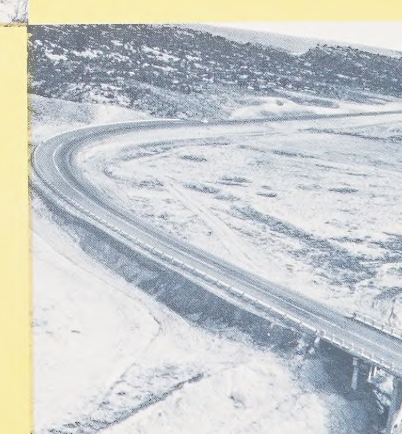
Operating

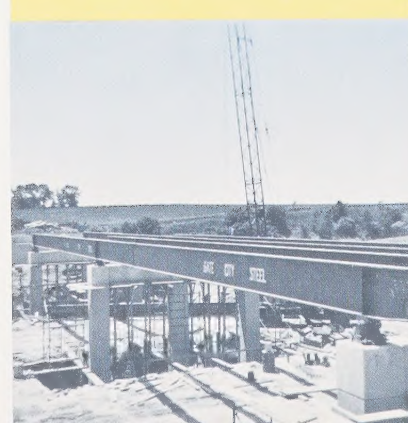
	1960	1959	1958	1957	1956
Net crude oil production (thousands of barrels)	3,166	3,153	3,081	3,436	3,028
Average barrels per day	8,674	8,639	8,441	9,414	8,296
Natural gas production (MMCF)	4,174	4,645	4,575	4,398	3,379
Average MCF per day	11,435	12,726	12,534	12,049	9,258
Crude oil processed (thousands of barrels)	5,110	5,647	5,411	6,263	6,395
Average barrels per day	14,000	15,471	14,825	17,160	17,520
Net refinery and marketing sales (thousands of barrels)	5,818	6,187	6,404	6,642	7,145
Number of wells drilled—gross (net)	54 (24.3)	68 (27.6)	81 (28.4)	114 (42.5)	117 (35.9)
Exploratory	30 (12.0)	25 (11.7)	32 (10.4)	56 (20.3)	58 (23.7)
Development	24 (12.3)	43 (15.9)	49 (18.0)	58 (22.2)	59 (12.2)
Successful wells completed—gross (net)	24 (13,7)	48 (19.5)	52 (18.7)	61 (23.0)	68 (16.9)
Exploratory	8 (5.7)	7 (4.3)	8 (2.5)	14 (5.3)	18 (7.1)
Development	16 (8.0)	41 (15.2)	44 (16,2)	47 (17.7)	50 (9.8)

*After giving retroactive effect to issue of 2,780,148 common shares pursuant to Exchange Offer (See Note 5) for all years.









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